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United States General Accounting Office
Washington, D.C. 20548

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STATEMENT OF
ELMER B. STAATS
COMPTROLLER GENERAL OF THE UNITED STATES
BEFORE THE
COMMITTEE ON THE DISTRICT OF COLUMBIA
UNITED STATES HOUSE OF REPRESENTATIVES
ON

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PROPOSED AUDIT OF THE DISTRICT OF COLUMBIA GOVERNMENT

Mr. Chairman and Members of the Committee, we welcome the opportunity to meet with you today to discuss our work involving the financial affairs of the District of Columbia and to present our views on the proposal that has been made to require an independent audit of the financial condition of the District of Columbia Government.

We in GAO are very much interested in the affairs of the District of Columbia and endorse the Congress' efforts to strengthen the District's financial management operations.

I will argue in my statement today that H.R. 11009, while containing commendable objectives, would only succeed in further demonstrating the already established financial management weaknesses of the District--at great cost and with little lasting curative effect. I will propose, instead, that initial emphasis be placed on improving the District's financial management system. This would be the approach of a Certified Public Accountant in his first-time audit of a firm with financial

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management problems. We think the same logic applies here--clean up the records and straighten up the system before undertaking a post audit to issue an opinion on the financial statements.

We have been long concerned over the quality of the financial management of the District of Columbia Government. We have a staff of 25 working on a continuing basis reviewing the District's activities in an effort to improve the management of District operations. In the past 4 years, we have provided 27 reports to the Congress, congressional committees, and Members on the problems and needed improvements at D.C. Government. In addition, we have issued 12 reports to District officials. Attachment I to my statement contains a listing of these reports. Our staff is currently working on a number of other assignments not yet reported. The more important of these are listed in attachment II. These reports illustrate quite clearly that there is a need for major improvement in the financial management system of the District.

I would like to mention a few specific examples of some of the financial problems we have found in the District.

1. We have over the years issued several reports on inadequacies in the District's payroll system; the most recent of which was issued in October 1972. This report recited numerous instances of persistent and widespread pay and leave errors.
2. A 1974 review of the District school system's procedures for controlling personnel and funds showed that substantial problems existed including an inability, as one example, even to determine the number of employees at each school.

3. In April 1974, we reported that our audit of the District's Forest Haven Home for the Retarded had been hampered and limited because of inadequacies in the accounting system, the unavailability of accounting records and unreliable and inaccurate accounting data. We reported that the Department of Human Resources, which runs Forest Haven, may have improperly spent Federal grant funds. Errors and shortcomings in the District's accounting records for Forest Haven raised questions concerning the department's ability to effectively control the use of its funds.
4. In August 1975 we reported to the District that a proposed billing system for water and sewer services would result in overcharging many of the 41,000 households in one section of the city. The amount of the potential overcharge could have been as much as \$300,000. We assisted the District in developing a billing system that would result in correct charges for water and sewer services.
5. The District assumed added problems when it acquired the Redevelopment Land Agency. Our recent review of the Agency's 14th Street urban renewal project was hampered by the lack of records. The Agency did not know the number of properties acquired, or their acquisition costs. The rent accounts included duplicate charges as well as improper charges for vacant properties. There was a loss of between \$9,000 and \$12,000

on 232 apartments for which the Agency collected no rent because lease agreements had not been obtained. These cases were identified by a GAO search.

6. During the past few years various in-house task force teams and auditors have identified deficiencies in billings and collections at Department of Human Resources health facilities. Our own work showed that \$5 million in billings on 8,000 patient accounts had not been submitted for Medicaid reimbursement because the accounts did not contain zip codes or complete addresses. Bills were submitted as a result of our findings.

In April 1974 one of these task forces reported several problems in accounts receivable. It said that the balance was uncertain--between \$100 - \$125 million, and that collections were very slow. Some accounts had been outstanding since before 1966; backlogs existed in posting payments to accounts; bad debts had not been written off; and collection efforts were minimal.

The task force said that a detailed analysis of all the accounts--a very time-consuming task--would be necessary to come up with an accurate figure of the accounts receivable.

Mr. Chairman, I am sure you'll agree that these examples support the need for major improvements in the District's financial management system.

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Now I would like to comment on the bill you are considering today. The bill provides for my Office to contract for an independent audit of

the financial statements of the District of Columbia. We believe, as I said earlier, that there is a need for a different focus than that planned for the proposed audit. To make the point, I will elaborate on what is involved in a financial statement audit and why such an initial effort does not seem appropriate in the case of the District.

The objective of an audit of financial statements by Certified Public Accountants is to obtain an informed opinion on the general fairness of these statements. Such an audit is largely a process of verifying that the statements prepared by management properly disclose the financial condition and results of operations of the unit being audited. In making such an audit, the auditors selectively verify the accuracy of the accounting records to confirm that transactions were properly reported.

CPAs satisfy themselves as to the general fairness of financial statements:

1. By a general review of the accounts and records and comparison of the figures shown on the statements with the sources from which they are drawn.
2. By a study of the accounting procedures and internal controls regularly followed and consideration of any departures from accepted practices.
3. By independent tests (through inspection, correspondence, or other means) of the existence of assets.
4. By the application of various audit tests to determine, so far as reasonably possible, that all liabilities are reflected in the balance sheet in actual or approximate amounts.
5. By analyses, tests, and overall review of the income and expense accounts.

6. By test procedures designed to determine the authenticity and general correctness of the accounts on which the statements are based.

The effort required to make a financial audit is obviously affected a great deal by the condition of the accounting records and the adequacy of the internal control procedures. When records and procedures are not properly designed and maintained, the extent of the testing and verification work is greatly increased. This causes the audit to become much more time-consuming and therefore much more expensive. The task of reconstructing the accounts may be impossible, or so major, as to preclude the rendering of an opinion at the conclusion of the audit.

Unfortunately, the District's system suffers from these ills. We have found the weaknesses in internal control and the inadequacies in record-keeping to be widespread and severe.

The old saw says "first things first." Trite but true. And we believe--as we have long believed--that the "first" need here is systems improvement.

Indeed, we have been working with District personnel for several years to get their accounting systems improved to the point that we can approve them. As you know, these systems are subject to our approval across Government.

We were encouraged with the interest shown by the District in developing an adequate financial management system following the rather extensive study of its financial affairs about 3 years ago by the Nelsen Commission. Shortly thereafter, in February 1972, we approved a statement of accounting principles and standards for the District which set forth the major concepts

and accounting principles that were to serve as the framework for the improvement of its financial accounting.

The District has made some progress since that time. However, we have been disappointed that its accounting systems are still far from acceptable. In September 1975, I brought our disappointment to the attention of the Mayor. A copy of my letter to him and his response are attached. (Attachments III and IV.)

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We believe that a systems improvement effort must be undertaken before an efficient and effective audit of the D.C. financial situation can be accomplished. If additional resources are to be provided, we urge they be applied first to improving the procedures and systems. While an outside contractor can no doubt be of considerable help in this process, there must also be significant involvement by District personnel. We would urge also that any such contract provide for contractor help in implementing the new procedures, including training D.C. personnel.

Mr. Chairman, we believe the audit proposed by H.R. 11009 is not truly responsive to the District's or the Congress' needs. It would be costly because of record deficiencies. It would, by its nature, be more concerned with identifying problems than in correcting them. While we support the objectives of the bill as we understand them, we are opposed to the bill in its present form.

Trusting that our position on the general thrust of the bill is clear, let me now address certain of its specific provisions.

The bill provides that although not a party to selection of the Certified Public Accountant, the Comptroller General is nevertheless tasked with entering into a contract with him. This is an unacceptable arrangement, Mr. Chairman. Award of such a contract is certainly consistent with our authority and responsibility under the Home Rule Act. (Attachment V contains relevant excerpts of the act.) But under Government contracting requirements for work of this type, it would be virtually impossible to separate establishment of the scope of the work, the price for it, and the qualifications of the contractor. Accordingly, in the absence of complete authority to select the contractor and make the award to him, we would be unwilling to accept the substantial legal responsibilities of contract award. If given such authority we would, of course, be completely agreeable to provision for extensive consultation with the congressional committees and with the District.

Finally, we believe that there is much uncertainty as to the adequacy of the \$1.5 million authorized by section 3 for the courses of action proposed either by the bill or by us. It may be too much--or too little. Provision should be made for subsequent adjustment, based on the proposals received from the accounting firms. It may prove necessary to perform this work in stages, by virtue of cost and/or magnitude.

That concludes my statement, Mr. Chairman. We will be pleased to answer any questions you and other members of the Committee may have.

APPENDIX I

Reports to Congress, Congressional Committees and
Individual Members

<u>Title</u>	<u>B-Number</u>	<u>Date</u>
Study of Child Care Activities in the District of Columbia	174895	1-24-72
Letter report on whether or not the District of Columbia was in violation of the Anti-Deficiency Act in connection with its fiscal year 1971 appropriations or allotments.	118638	3-13-72
Activities of Blackman's Development Center	164031	4-28-72
Examination Into Financing and Other Matters Related to Preliminary Surveys and Construction Services for the Capital Improvements Program	118638	5-5-72
Problems in Financial and Property Management at the District of Columbia Teachers' College	167006	5-16-72
Improvements needed in policy for establishing regulatory fees	118638	7-12-72
Violations of the Anti-Deficiency Act	118638	9-15-72
Problems in Financial and Property Administration at Washington Technical Institute, District of Columbia	167006	10-27-72
Payroll Operations of the District of Columbia Government Need Improvement	118638	10-30-72
Controls Over Funds Available to the District of Columbia Public Schools	118638	10-31-72
Child-Care Activities in Chicago, Illinois and St. Louis, Missouri	174895	11-17-72

APPENDIX I

Study of Federal Programs for Manpower Services for the Disadvantaged in the District of Columbia	146879	1-30-73
Regarding personnel need for new correctional facilities, District of Columbia	118638	3-7-73
Municipal Audit and Inspection (OMAI) of the expenditure of funds by the District of Columbia public schools (DCPS) during fiscal years 1970 and 1971	118638	3-8-73
Review of the Solid Waste Collection Program	118638	5-2-73
D. C. Courts' personnel needs	175428	5-10-73
District's expenditures for telephone services and the adequacy of its controls over such services.	118638	5-31-73
Study of Programs for Health Services in Outpatient Health Centers in the District of Columbia	118638	7-31-73
Review of the District's Police and Firemen Retirement and Relief System	118638	4-10-74
Better Management Needed for Tighter Security at Lorton Correctional Institutions	118638	6-21-74
Review of Inmate and Employees' Welfare Funds and Department of Corrections and Bureau of Prisons Selected Costs	118638	6-21-74
Solid Waste Disposal Activities (Lorton Landfill)	118638	9-26-74
Out-of-City Travel - Department of Human Resources Public School System District of Columbia	118638	12-4-74

APPENDIX I

What is Being Done About
Individuals Who Fail to
File a District Income Tax
Return

118638

3-20-75

Resource Management Can Be
Improved by Greater Use of
Productivity Techniques in the
District of Columbia

163762

4-16-75

Comprehensive Child Care Plan

118638

10-08-75

A Case for Providing Pay-as-
You Go Privileges to Military
Personnel for State Income Taxes

125036

11-19-75

APPENDIX I

Reports to District Officials

<u>Title</u>	<u>B-Number</u>	<u>Date</u>
Implementation of the Supplemental Food Program, District of Columbia Government	118638	2-1-72
Closeout letter--Review of Billings and Collections	—	2-10-72
Lead-based Paint Poisoning of Children in the District of Columbia	118638	3-20-72
Review of Licensing and Inspection Activities, District of Columbia Government	—	5-30-73
Review of the Award of Negotiated Personal Services Contracts and Controls Over Nonappropriated Funds District of Columbia Public Schools	—	8-31-73
Improvements Needed in Assigning, Metropolitan Police Department Officers	118638	12-21-73
Survey of the D. C. Budget as a Management Device to Improve Effectiveness and Productivity		3-20-74
Department of Human Resources, Administration of the Medicaid Program	164031	8-22-74
District of Columbia Public Schools Warehousing Operations	—	1-24-75
Correction of Water and Sewer Overcharges to Northwest County Customers	—	8-21-75
Supply Management in the Department of Environmental Services, District of Columbia	—	7-18-75
Housing Issues Which Need Consideration by the District Government	—	10-20-75

DISTRICT OF COLUMBIA GOVERNMENT AUDIT

ACTIVE JOBS

NOVEMBER 1975

PUBLIC SAFETY

Office of Youth Opportunity Services

Motor Equipment Management

Solid Waste Collection Program

FINANCE AND REVENUE

Administration of Self-Assessed Taxes

Property Tax Administration

HOUSING

Urban Renewal Activities - 14th Street

Abandoned and Vacant Housing in District of Columbia

PUBLIC SCHOOLS

Long Range Capital Improvement Plan

Resource Management Systems

PROCUREMENT ACTIVITIES

Procurement and Supply Activities

HEALTH AND WELFARE

Eligibility in the District AFDC Program

Program to Reduce Welfare Rolls by Providing Employment
with Career Potential



THE DISTRICT OF COLUMBIA

WALTER E. WASHINGTON
MAYOR

WASHINGTON, D. C. 20004

OCT 21 1975

Honorable Elmer B. Staats
Comptroller General of the United States
General Accounting Office
Washington, D. C. 20548

Dear Mr. Staats:

Thank you for your letter of September 23, 1975, in which you expressed your concern regarding the District of Columbia's progress in improving its accounting systems. In my judgment, the District has been moving in a responsible and timely manner in that area, especially when the District's efforts are viewed in the context of its particular requirements as a municipal government.

In your letter you cite experiences with Federal departments and agencies in evaluating the District's efforts:

"From our point of view--based on observing accounting systems developments in Federal agencies--we believe that a major obstacle to progress in the District has been the problem of clearly identifying and defining boundaries of the various accounting systems and subsystems used by District of Columbia organizations."

The District is subject to pressures that are different in many important ways from those being felt by Federal departments, however. The city must operate within stringent funding constraints, thus putting a premium on effective monitoring of obligations and revenues. In addition, city officials and managers need highly detailed program and financial data to respond to the public's demands for accountability by those officials.

In response to the city's special requirements and the overall requirements of sound financial management, we are carrying out concurrently a number of systems development projects, including the work that you have suggested defining the various systems and subsystems in the District.

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As the attachment to your letter points out, the city is planning to put in operation by October 1, 1976, a new appropriation-allotment system. That system will improve the timeliness, availability, and accuracy of information on obligations and financial plans at the agency level and at the central level. It will also provide for better safeguards against over-obligations. A more detailed description of the planned system is included in the attachment to this letter.

At the same time, we are planning to make major improvements in personnel management and position control by October 1, 1976. The personnel management system will provide for better information and control.

Preliminary meetings have been held on the development of a new revenue accounting system.

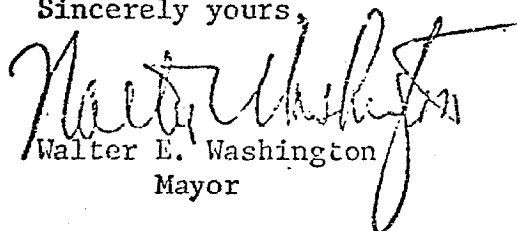
We are also working to identify and define all accounting subsystems in the District, as called for by your letter.

I strongly believe that it is essential that these various improvement efforts be carried out concurrently. The planned improvements in obligation and personnel control are vital to responsible financial management in the District Government and cannot be delayed until all accounting subsystems have been identified and defined. Because of the complexity of the programming and systems design required, it will be difficult to achieve the planned starting date of October 1, 1976, for the systems. Any delay would push the starting date back to Fiscal Year 1978 or later. I believe that such a delay should be avoided if at all possible.

I am hopeful that the concurrent work on the inventory and systems definition will provide the necessary information for the development of the new system. Agencies will be better able to assess their needs as a result of their experience with the design of the new obligation and personnel systems. They will also gain a better understanding of how the new system will meet their needs if they see the system itself under development rather than the design documents for the system.

While we may not agree on the specific steps to be taken in the development of the new system, I am confident that we share the same goal of significantly improving the District's financial management system. I appreciate the ongoing assistance provided by your office in this effort.

Sincerely yours,


Walter E. Washington
Mayor

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

APPENDIX IV

B-140997

SEP 23 1975

The Honorable Walter E. Washington
Mayor of the District of Columbia

Dear Mayor Washington:

I have recently reviewed the status of your accounting systems improvement effort and am disappointed, as I am sure you must be, at the slow progress being made.

When we approved your accounting principles and standards almost 3-1/2 years ago, we had high hopes that that was the beginning of a vigorous systems improvement effort in the District of Columbia.

I realize that following our report of March 13, 1972, on violations of the Anti-Deficiency Act, you were under pressure to do a lot of "dike-patching." I am also aware of the reorganization and strengthening of your financial management structure that has since taken place. Nevertheless, progress in developing systems which meet our requirements for approval appear minimal, as indicated in the enclosed summary which is to be included in our 1975 report to the Congress on our accounting system work.

From our point of view--based on observing accounting systems developments in Federal agencies--we believe that a major obstacle to progress in the District has been the problem of clearly identifying and defining boundaries of the various accounting systems and subsystems used by District of Columbia organizations. This must be done to permit several designs to be prepared simultaneously, which is necessary if all of the District's numerous accounting systems are to be approved and operating within a reasonable period of time. This information is also necessary to determine whether the system which has been informally submitted for our evaluation meets our standards and is therefore approvable.

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We urge that you and your staff, as soon as possible, address this issue and the related issues of what level in the District organizations will be responsible for designing and operating the various systems and segments. Once these basic issues are settled, the design and documentation work can be planned and undertaken more effectively.

We are appealing to you again on this matter because we are very much interested in seeing that the District has an effective accounting and financial management system. You can count on our continued cooperation.

Sincerely yours,

SIGNED ELMER B. STAATS

Comptroller General
of the United States

Enclosure

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AUDIT PROVISIONS IN D.C. HOME RULE ACT¹INTERNAL AUDIT [Sec. 449(d)]

The Mayor shall perform internal audits of accounts and operations and agency records of the District government, including the examination of any accounts or records of financial transactions, giving due consideration to the effectiveness of accounting systems, internal control, and related administrative practices of the respective agencies.

LEGISLATIVE AUDIT [Sec. 455]

(a) There is established for the District of Columbia the Office of District of Columbia Auditor who shall be appointed by the Chairman, subject to the approval of a majority of the Council. The District of Columbia Auditor shall serve for a term of six years and shall be paid at a rate of compensation as may be established from time to time by the Council.

(b) The District of Columbia Auditor shall each year conduct a thorough audit of the accounts and operations of the government of the District in accordance with such principles and procedures and under such rules and regulations as he may prescribe. In the determination of the auditing procedures to be followed and the extent of the examination of vouchers and other documents and records, the District of Columbia Auditor shall give due regard to generally accepted principles of auditing including the effectiveness of the accounting organizations and systems, internal audit and control, and related administrative practices.

(c) The District of Columbia Auditor shall have access to all books, accounts, records, reports, findings and all other papers, things, or property belonging to or in use by any department, agency, or other instrumentality of the District government and necessary to facilitate the audit.

(d) The District of Columbia Auditor shall submit his audit reports to the Congress, the Mayor, and the Council. Such reports shall set forth the scope of the audits conducted by him and shall include such comments and information as the District of Columbia Auditor may deem necessary to keep the Congress, the Mayor, and the Council informed of the operations to which the reports relate, together with such recommendations with respect thereto as he may deem advisable.

(e) The Council shall make such report, together with such other material as it deems pertinent thereto, available for public inspection.

(f) The Mayor shall state in writing to the Council, within an appropriate time, what action he has taken to effectuate the recommendations made by the District of Columbia Auditor in his reports.

¹District of Columbia Self-Government and Government
Reorganization Act, P.L. 92-162

GENERAL ACCOUNTING OFFICE AUDIT [Sec. 736]

(a) In addition to the audit carried out under section 455, the accounts and operations of the District government shall be audited annually by the General Accounting Office in accordance with such principles and procedures, and in such detail, and under such rules and regulations as may be prescribed by the Comptroller General of the United States. In the determination of the auditing procedures to be followed and the extent of the examination of vouchers and other documents, the Comptroller General shall give due regard to generally accepted principles of auditing, including consideration of the effectiveness of the accounting organizations and systems, internal audit and control, and related administrative practices. The representatives of the General Accounting Office shall have access to all books, accounts, records, reports, files, and all other papers, things, or property belonging to or in use by the District and necessary to facilitate the audit, and such representatives shall be afforded full facilities for auditing the accounts and operations of the District government.

(b) (1) The Comptroller General shall submit his audit reports to the Congress, the Mayor, and the Council. The reports shall set forth the scope of the audits and shall include such comments and information as the Comptroller General may deem necessary to keep the Congress, the Mayor, and the Council informed of the operations to which the reports relate, together with such recommendations with respect thereto as the Comptroller General may deem advisable.

(2) After the Mayor has had an opportunity to be heard, the Council may make such report, together with such other material as it deems pertinent thereto, available for public inspection.

(3) The Mayor, within ninety days after receipt of the audit from the Comptroller General, shall state in writing to the Council, with a copy to the Congress, what has been done to comply with the recommendations made by the Comptroller General in the report.

AUDIT OF BOND SINKING FUND [Sec. 481(c)(2)]

The Comptroller General of the United States shall make annual audits of the amounts set aside and deposited in the sinking fund.